

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018/2019

### DII5018 – INTRODUCTION TO INVESTMENT

( All sections / Groups )

19 OCTOBER 2018

9.00 a.m – 11.00 a.m

(2 Hours)

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#### INSTRUCTIONS TO STUDENT

1. This question paper consists of 10 pages with 2 sections.
2. Answer **ALL** questions.
3. Answers for Section A should be shaded on the OMR form provided.
4. For Section B, write your answers in the answer booklet provided.
5. The formulae are given in the appendix.

**SECTION A: MULTIPLE CHOICE QUESTIONS [30 Marks]****Each question carries 1 mark.**

1. \_\_\_\_\_ is an example of a tangible asset.
  - A. Bonds
  - B. Mutual funds
  - C. Real estate
  - D. Stocks
  
2. \_\_\_\_\_ is an investment represents ownership of a corporation.
  - A. Bonds
  - B. Mutual funds
  - C. Commercial paper
  - D. Common stock
  
3. As an investor, you should consider \_\_\_\_\_ in selecting investments that consistent with your goals.
  - A. rates of return and taxes only.
  - B. the pre-tax rate of return only.
  - C. annual dividends and taxes only.
  - D. risks, returns, and taxes.
  
4. \_\_\_\_\_ is most appropriate for speculative and growth oriented investments.
  - A. Young investors
  - B. Middle-aged investors
  - C. Retired investors
  - D. High income investors
  
5. Which of the below, should an investor choose to invest in, if they are seeking to increase their wealth quickly?
  - A. Corporate bonds and preferred stocks.
  - B. Large company stocks with high dividends.
  - C. Smaller companies pursuing rapid growth.
  - D. Government bonds and low-risk income stocks.

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6. \_\_\_\_\_ includes wages, salary, pension income and alimony.
- A. Portfolio income.
  - B. Active income.
  - C. Non-taxable income.
  - D. Passive income.
7. \_\_\_\_\_ is the market for investor to bought and sold the short-term securities.
- A. Capital market
  - B. Primary market
  - C. Money market
  - D. Stock market
8. \_\_\_\_\_ refers to rights offering.
- A. The initial offering of securities to the public
  - B. The offering of new securities to current shareholders
  - C. The sale of newly issued shares of stock to the general public
  - D. The sale of securities directly to a select group of investors
9. Company that is offering stock in the market for the first time will seek the assistance of \_\_\_\_\_.
- A. investment bankers
  - B. the Securities Commission Malaysia
  - C. the Central Bank
  - D. prospectors
10. \_\_\_\_\_ refers to investment bankers who join together to share the financial risk associated with buying an entire issue of new securities and re-selling them to the public.
- A. Selling group
  - B. Tombstone group
  - C. Underwriting syndicate
  - D. Primary market group
11. The broker will \_\_\_\_\_, if an investor does not respond to a margin call.
- A. sell enough of the investor's holdings that the margin account can be closed.
  - B. sell some of the investor's holdings to cover the margin call.
  - C. notify the Central Bank so they can cover the call.
  - D. sell all of the investor's holdings and close their brokerage account.

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12. Which of the following statements about short selling are **TRUE**?

- I. Short selling requires an initial margin deposit.
- II. Short sellers begin a transaction with a sale and end it with a purchase.
- III. Short sellers profit when the stock prices rises.
- IV. Short selling can be a risky strategy.

- A. III and IV only.
- B. I and II only.
- C. I, II and IV only.
- D. I, II, III and IV.

13. Which of the following can be treasury stock used to do?

- I. Acquisition.
- II. Pay to company employees.
- III. Distribute as stock dividends.
- IV. Contribute to employee stock option plan.

- A. I and III only.
- B. II and IV only.
- C. III and IV only.
- D. I, III and IV only.

14. If an investor wants to take advantage of the opportunity to acquire additional shares of a company's stock without incurring any brokerage commissions, they should participate in \_\_\_\_\_.

- A. Initial public offerings.
- B. Dividend reinvestment plans (DRIPs).
- C. Deferred equity securities.
- D. Corporate trusts.

15. Which one of the following characteristics of a blue chip stock is **CORRECT**?

- A. Guaranteed a minimum annual dividend of RM2 per share.
- B. Annual dividends of more than RM5 per share.
- C. Long and stable dividend and earnings records.
- D. Relatively high risk exposure.

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16. When economic activity is slowing down, stocks whose prices are expected to remain stable, or even prosper are known as \_\_\_\_\_
- A. defensive stocks.
  - B. cyclical stocks.
  - C. reversible stocks.
  - D. speculative stocks.
17. Which one of the following characteristics of growth stocks is **TRUE**?
- A. Rapidly growing dividends.
  - B. High rates of growth in operations and earnings.
  - C. Acquisitions of competing companies.
  - D. Strong performance even in market downturns.
18. Which one of the following refers to aggressive stock management?
- A. Is the riskiest of all the investment strategies.
  - B. Involves active stock trading in the short-term in the quest for capital gains.
  - C. Concentrates on the long-term growth aspects of a security.
  - D. Concentrates on high dividend yielding stocks.
19. The Rompira Company issued an 8 percent bond four years ago at par value. The market interest rate on comparable bonds today is 9.5 percent. The Rompira Company bond currently pays \_\_\_\_\_ a year in interest and the bond sells at a \_\_\_\_\_.
- A. RM60; discount
  - B. RM60; premium
  - C. RM80; discount
  - D. RM50; premium
20. Below are examples of corporations major segments that issue corporate bonds, **EXCEPT** \_\_\_\_\_
- A. public utilities.
  - B. financial institution.
  - C. food and beverage.
  - D. rail and transportation.

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21. If Romin expects market interest rates of a bond to rise, he should purchase a \_\_\_\_\_
- A. short-term, low coupon bonds.
  - B. short-term, high coupon bonds.
  - C. long-term, low coupon bonds.
  - D. long-term, high coupon bonds.
22. Collateralised mortgage obligations are relatively a safe investment **EXCEPT** when \_\_\_\_\_
- A. interest rates rise.
  - B. inflation is high.
  - C. home prices decline.
  - D. mortgage holders refinance frequently.
23. When a company's bond is rated as speculative issues, it means that the company received a rating of \_\_\_\_\_
- A. Baa from Moody's.
  - B. BB from S&P.
  - C. Caa from Moody's.
  - D. BBB from S&P.
24. When a bond's market value exceeds its par value, a bond will be sold at \_\_\_\_\_
- A. par.
  - B. face value.
  - C. a premium.
  - D. a discount.
25. \_\_\_\_\_ is one of the most important factor that influences the behavior of market interest rates is.
- A. Inflation
  - B. Business profits
  - C. The supply of new bonds
  - D. The stock market

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26. Yield Curve is a graph that represents the relationship between a bond's term to maturity and its yield at a given point in time. Thus, below are the factors that lead to an upward-sloping yield curve, **EXCEPT** \_\_\_\_\_
- A. expectation of rising interest rates.
  - B. greater supply of shorter-term loans.
  - C. greater supply of longer-term loans.
  - D. lender preference for shorter-maturity loans.
27. Downward sloping or flat yield curves often indicate \_\_\_\_\_
- A. a recession in the near future.
  - B. an economic expansion in the near future.
  - C. higher inflation in the near future.
  - D. a weaker dollar in the foreign exchange markets.
28. Long-term bonds are \_\_\_\_\_ than short-term bonds.
- A. less risky
  - B. more liquid
  - C. subject to more uncertainty
  - D. more sensitive to interest rate changes
29. Market segmentation theory explains the typical upward sloping shape of yield curves as a function of:
- A. normally greater demand for long-term bonds than for short-term notes.
  - B. normally greater demand for short-term notes than for long-term bonds.
  - C. expectations that inflation will be higher in the future than it is now.
  - D. the greater liquidity of short-term notes as compared to long-term bonds.
30. Compute the current yield of a bond that has RM1,000 par value and current price of RM1,350. Assume the coupon rate is 11 percent.
- A. 0.82%
  - B. 8.15%
  - C. 11%
  - D. 14.85%

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**SECTION B: STRUCTURED QUESTIONS [70 Marks]****QUESTION 1**

a. Doone wants to invest in two investment alternatives as below:

Cash received (RM)	Investment Vehicle	
	Razz Ltd.	Yosef Ltd.
1 <sup>st</sup> quarter	0.60	0.50
2 <sup>nd</sup> quarter	0.30	0.10
3 <sup>rd</sup> quarter	0.50	0.20
4 <sup>th</sup> quarter	1.00	0.80
Investment Value (RM)		
2016	25.00	20.00
2017	30.00	26.00

- i. Calculate holding period return (HPR) for both investment alternatives. (9 marks)
  - ii. Based on answer in (i) above, which investment should Doone invests? Why? (2 marks)
  - iii. List any **TWO (2)** advantages and any **TWO (2)** disadvantages of using Holding Period Return in investment decision. (4 marks)
- b. The required rate of return on Nike Berhad is 11 percent when the risk free rate is 6 percent. If the investor requires 5 percent risk premium as compensation for the risk associated and expect the inflation premium is 3 percent.
- i. Calculate the real rate of return. (2 marks)
  - ii. The inflation is expected to rise from 3 percent to 4 percent. What will be the investor's required rate of return? (3 marks)
- (Total: 20 marks)

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**QUESTION 2**

- a. Kah Shen wants to invest RM90,000 in the stock market. He plans to invests RM45,000 in CIB Bank and RM27,000 in Banana Corporation. Therefore, he had done the market research and selects three stocks as below with the expected return for each stock.

Stock	Expected Return (%)
CIB Bank	15
Banana Corporation	8
Old-City Restaurant	8

After one year of investment, the actual return of the stocks invested as below:

Stock	Actual Return after One Year (%)
CIB Bank	13
Banana Corporation	12
Old-City Restaurant	10

- i. Calculate the expected return of the portfolio. (4 marks)
  - ii. Calculate the actual return of the portfolio. (4 marks)
  - iii. What will be the performance of the portfolio? Justify your answer. (2 marks)
- b. Hayati wants to know the required return on each investment she selected below.

Stock	Beta
Nesty Bhd.	1.2
Prota Car Retailer Corporation	1.8
Agota Corporation	0.7

- i. You are required to help Madam Hayati to calculate the required return for each stock above using CAPM method if the risk free rate is 3 percent and current market risk is 7 percent. (9 marks)
  - ii. Which stock will Madam Hayati choose based on above calculation? (1 mark)
- (Total: 20 marks)

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**QUESTION 3**

JJ Berhad is a retailer company for music instruments. The annual sales for the company is RM98,000, cost of goods sold is 50 percent of the annual sales. Depreciation expenses is RM10,000 and the interest expenses is 28 percent of the long-term debt.

The total assets of the company are RM180,000 and the total liabilities are RM80,000. The company currently has outstanding long-term debt of RM50,000. Calculate:

- a. current ratio of JJ Berhad if fixed assets is equal to RM105,000. (3 marks)
  - b. account receivable turnover if the account receivable is 60 percent of the annual sales. (3 marks)
  - c. total assets turnover. (3 marks)
  - d. time interest earned. (3 marks)
  - e. return of assets if the tax expenses is RM7,000. (3 marks)
- (Total: 15 marks)

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**QUESTION 4**

- a. Manikha Bhd. is a mutual fund company. The company's management had agreed to invest a total asset of RM150,000 in a fund. Out of the RM150,000, they decide to invest 40% in Bank A, 25% in Bank B, and the balance in Bank C. The total liabilities for Manikha Bhd. for this fund is RM30,000. The total unit outstanding offered by the fund's company is 6,000 units.

Based on this information:

- i. Calculate the amount that Manikha Bhd invested in each bank.  
(4.5 marks)
  - ii. Calculate the NAV per unit for the fund.  
(2.5 marks)
  - iii. If Alex wants to buy 500 units of the Manikha's funds, compute how much Alex should invest.  
(2 marks)
  - iv. If Alex intended to buy a second hand car that will cost him RM8,500, compute the total units need to be sold by him if the NAV of the fund he invested in increased by RM1.25.  
(2.5 marks)
  - v. List down any **SEVEN (7)** types of mutual funds.  
(3.5 marks)
- (Total: 15 marks)

**End of Page**

## Appendix

1.  $\text{Margin} = \frac{V-D}{V}$
2. Return on invested capital from a margin transaction  

$$= \frac{\text{Total current income received} - \text{Total interest paid on margin loan} + \text{Capital gain/loss}}{\text{Amount of equity at purchase}}$$
3. Risk-free rate = Real rate of return + Expected inflation premium
4. Required return on investment j = Risk-free rate + Risk premium for investment j
5.  $\text{HPR} = \frac{\text{Income during period} + \text{Capital gain/loss during period}}{\text{Beginning investment value}}$
6.  $\text{FV} = \text{PV} (1 + r)^n$
7.  $D_1 = D_0 (1 + g)^n$
8.  $\text{Standard Deviation} = \sqrt{\frac{\sum_{t=1}^n (r_t - \bar{r})^2}{n-1}}$
9.  $\text{Portfolio return} = \sum_{j=1}^n (w_j \times r_j)$
10.  $r_j = R_F + [ b_j \times (r_m - R_F) ]$
11.  $\text{Portfolio beta} = \sum_{j=1}^n (w_j \times b_j)$
12.  $\text{EPS} = \frac{\text{Net Income} - \text{Preferred dividends}}{\text{Number of shares of common stock outstanding}}$
13.  $\text{Dividend yield} = \frac{\text{Annual dividends received per share}}{\text{Current market price of the stock}}$
14.  $\text{Dividend payout ratio} = \frac{\text{Dividends per share}}{\text{Earnings per share}}$
15. Total returns  

$$= \text{Current income} + \text{Capital gains/losses} \pm \text{Changes in currency exchange rates}$$
16.  $\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$

17. Net working capital = Current assets – Current liabilities
18. Accounts receivable turnover =  $\frac{\text{Annual sales}}{\text{Accounts receivable}}$
19. Inventory turnover =  $\frac{\text{Annual sales}}{\text{Inventory}}$
20. Total asset turnover =  $\frac{\text{Annual sales}}{\text{Total assets}}$
21. Debt-equity ratio =  $\frac{\text{Long-term debt}}{\text{Stockholders' equity}}$
22. Time interest earned =  $\frac{\text{EBIT}}{\text{Interest expenses}}$
23. Net profit margin =  $\frac{\text{Net profit after taxes}}{\text{Total revenue}}$
24. ROA =  $\frac{\text{Net profit after taxes}}{\text{Total assets}}$
25. ROE =  $\frac{\text{Net profit after taxes}}{\text{Stockholders' equity}}$
26. P/E =  $\frac{\text{Net price of common stock}}{\text{EPS}}$
27. PEG ratio =  $\frac{\text{Stock's P/E ratio}}{\text{3-to-5 year growth rate in earnings}}$
28. Dividend per share =  $\frac{\text{Annual dividend paid to common stock}}{\text{Number of common shares outstanding}}$
29. Payout ratio =  $\frac{\text{Dividends per share}}{\text{Earnings per share}}$
30. Book value per share =  $\frac{\text{Common stockholders' equity}}{\text{Number of common shares outstanding}}$
31. Price-to-book-value =  $\frac{\text{Market price of common stock}}{\text{Book value per share}}$
32. Taxable equivalent yield =  $\frac{\text{Yield on municipal bond}}{1 - \text{Federal tax rate}}$

33. Taxable equivalent yield for both federal and state taxes

$$= \frac{\text{Municipal bond yield}}{1 - [\text{Federal tax rate} + \text{state tax rate} (1 - \text{Federal tax rate})]}$$

34. Conversion value = Conversion ratio x Current market price of the stock

35. Conversion equivalent =  $\frac{\text{Current market price of the convertible bond}}{\text{Conversion ratio}}$

36. Conversion premium (in RM)

$$= \text{Current market price of the convertible bond} - \text{Conversion value}$$

37. Conversion premium (in %) =  $\frac{\text{Conversion premium (in RM)}}{\text{Conversion value}}$

38. Payback period =

$$\frac{\text{Conversion premium (in RM)}}{\text{Annual interest income from the convertible bond} - \text{Annual dividend income from the underlying common stock}}$$

39. Current yield =  $\frac{\text{Annual interest income}}{\text{Current market price of the bond}}$

40. Yield to maturity =  $\frac{\text{Annual interest} + \frac{\text{Par value} - \text{Market price}}{\text{Number of years to maturity}}}{\frac{\text{Par value} + \text{market price}}{2}}$

41. Yield to call =  $\frac{\text{Annual interest} + \frac{\text{Call price} - \text{Market price}}{\text{Number of years to call}}}{\frac{\text{Call price} + \text{market price}}{2}}$

42. Premium (or discount) =  $\frac{\text{Share price} - \text{NAV}}{\text{NAV}}$

43. HPR =

$$\frac{(\text{Number of shares at end of period} \times \text{Ending price}) - (\text{Number of shares at beginning of period} \times \text{Initial price})}{\text{Number of shares at beginning of period} \times \text{Initial price}}$$

44. NAV =  $\frac{\text{Fund assets} - \text{Fund liabilities}}{\text{Number of units outstanding}}$

